ISSUE 04/Spring–Summer 2015

equip

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Welcome to our latest edition of Equip, a publication based on results from the Asset Finance Australia Index Report.

Our research partners, East & Partners, surveyed 869 business decision makers and their feedback forms the basis for this new edition. We also engaged a number of industry experts to deliver some key insights into the Asset Finance Market and some further opportunities to be considered.

We're not short of financing options in Australia and funding rates continue to give buying power to businesses who are ready to invest; but finance is much more than just a good rate.

To guide customers through the array of choices, we've put together ten questions to ask any prospective finance provider to ensure they get a good deal; one that meets the needs of their business.

Financing of IT based equipment forms a large component of asset leasing/financing in the market. We talk with our IT leasing partner, equigroup, to explore some of the mysteries of Operating Leases and how they can be utilised with IT and medical equipment purchases.

Finally, we take a quick look at how asset based leasing/finance can be used to acquire a very broad range of equipment that will help businesses to innovate, as well as save on energy costs in the process.

Please enjoy!

David Farr
Managing Director, Asset Finance
Commonwealth Bank

About Equip Asset Financing Australia Report
The Commonwealth Bank has commissioned East & Partners to conduct research and provide insights for this edition of the Equip Asset Financing Australia Report. East & Partners' established research methodology has resulted in findings which are statistically robust and reflective of actual market experiences. Data is based on direct interviews conducted in June and September 2015 with a structured national sample of 869 businesses with annual turnover in excess of A$25 million. The sample has been structured to directly mirror natural distribution of these businesses by turnover segment, geography and industry. In building the sample frame, the relevant enterprise population demographic distributions reported by the Australian Bureau of Statistics are used, with actual interviewee targets being randomly selected. The sole selection criteria used in addition to this natural framing was that the target business had to be actively engaging in asset or equipment financing.

About East & Partners
East & Partners Pty Ltd, a leading specialist market research firm in the business, corporate and investment banking markets of Asia Pacific, works across 11 countries in the region delivering both multi-client and proprietary market analysis services to financial services providers.

More Information
For more information on how CommBank can meet your Asset Financing requirements, contact your Relationship Manager or contact our Asset Finance Team on 1800 ASSETS (277 387).

Industry fast facts

61.4%

Of companies looking to replace or invest in additional equipment will look to do so from local suppliers.

AFA research

Impacts on cash flow, as rated by businesses:

1. Maintenance and parts
2. Revenue loss due to downtime and accidents
3. Repayments on finance
4. Fuel

When considering business equipment, machinery and vehicles from highest and lowest.

AFA research

19.1%

Of all vehicles registered in 2014 were freight vehicles. Of these...

83.4% Were light commercial vehicles.

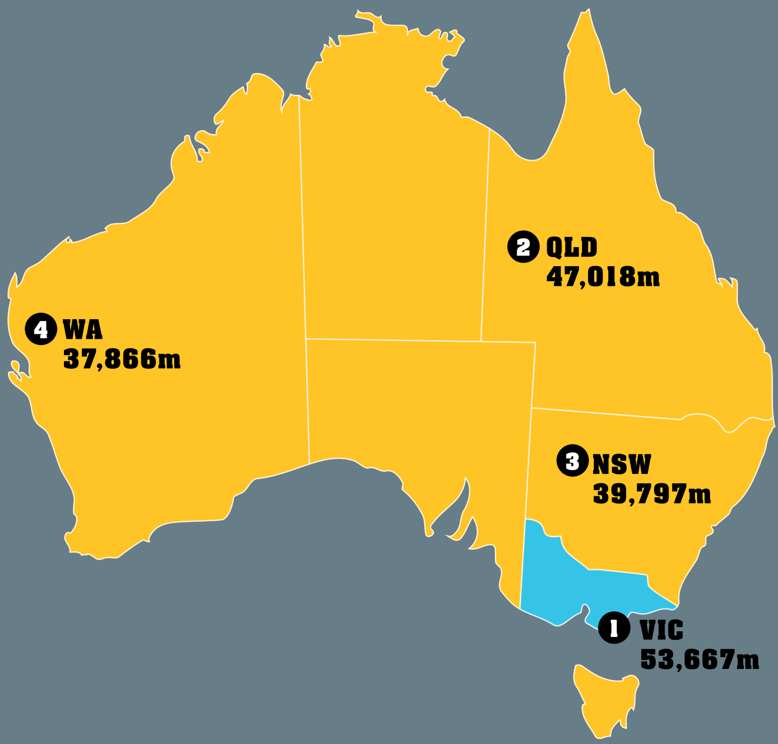
13.8% Were rigid trucks.

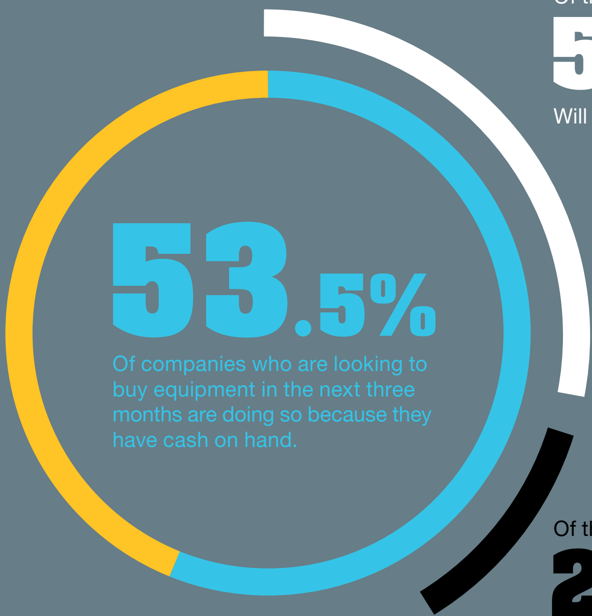
2.8% Were articulated trucks.

ABS, Survey of Motor Vehicle Use, 2014

In 2014, freight vehicles registered in Victoria travelled the most tonne-kilometers.

ABS, Survey of Motor Vehicle Use, 2014





Of these
51.2%
Will invest in vehicles.

Of these
22.2%
Will invest in IT based hardware.

AFA research

Analysis

Technology leasing that works

Access to the latest technology is essential in a fast-paced and highly competitive marketplace. But updating IT doesn't have to involve large capital costs upfront. Businesses across Australia are using leasing or equipment finance to keep technology up to date — and saving time and money in the process.

Purchasing outright and utilising finance solutions like chattel mortgage and hire purchase are often considered for vehicles and heavy machinery. However, they may not necessarily be the right method to acquire IT based equipment.

Current trends

According to Nick Holmes, General Manager, equigroup Business Development, Australia and New Zealand, companies should see IT as a short-term business tool, rather than an expensive long-term asset.

"These days, computers are very affordable, with laptops available for as little as $500," Holmes explained. "So the real cost is in installing the equipment, maintaining and managing the assets, and removing any data once it reaches end-of-life."

While business' view of IT has evolved, the approach to financing remains largely unchanged. According to Holmes, cash is still by far the most common choice.

"Businesses don't pre-pay operating expenses such as power bills, photocopying paper or toner two or three years in advance," Holmes said. "These are operating costs. By paying cash, businesses are effectively pre-paying IT expenses many years in advance without knowing how their needs will change during that time."

Fortunately, the tide is turning. New CommBank research[1] shows that 22.2% of businesses considering equipment finance intend to use it for technology.

Always up to date

IT hardware can lose its value over time. By leasing this rapidly depreciating business tool, you can transfer the ownership risk — the changes that make IT date quickly — to the lender, because they're the ones who own it. In addition, the financing costs could be claimed as an operating expense. Even better, leasing can free up cash flow for other business purposes.

How an operating lease works

An operating lease can be an effective way to finance IT. The lender pays the supplier for the customer's equipment, and then leases the equipment to the customer over an agreed term — usually two to three years.

At the end of the term, they can choose to:

- Hand the equipment back and get updated models;
- Extend the rental term month on month, providing time to evaluate costs, financing options and newer technologies before making a decision;
- Offer to buy the IT equipment at market value; or,
- Use a combination of all three options.

Tips for leasing IT

1. Use an asset management solution to manage your IT equipment for the whole life cycle, including removal at end-of-life.
2. Look for return clauses in contracts, it should be simple to return the assets.
3. Ask your IT provider how they protect your security by wiping data from your equipment when you return it.
4. Review contracts regularly and look for ways your lender could make them more flexible.
5. Make sure you have a clear understanding of your annual IT spend. Consider talking to an asset specialist about different finance options, and consult your accountant to help choose the right option for you.

1 East & Partners research commissioned by CommBank September 2015

By paying cash, businesses are pre-paying for IT years in advance, risking future technology changes.

Did you know?

22.2% of companies looking to buy equipment in the next three months are investing in IT based hardware.

Finance

Solving the equipment finance puzzle

Equipment finance can be used to purchase assets that help your business generate income. But with so many options to choose from, making the right choice can be challenging. We talked to one of our experts about key points to consider when choosing a solution.

The most popular

According to Grant Cairns, General Manager, Client Acquisition & Specialist Solutions, Commonwealth Bank, equipment loans (also known as chattel mortgages) are by far the most popular asset financing option.

"Well over 80% of our current financing is through equipment loans," said Cairns. "This kind of loan allows the business to own the asset. It effectively sits on their balance sheet and the business may be able to claim depreciation and interest as a tax benefit."

How an equipment loan works

The finance provider lends the customer the funds to buy the asset, and then takes a mortgage over it. The customer owns the asset, and makes payments over a term, typically between two to five years, depending on the equipment's expected effective life.

"The customer can opt for a residual or balloon payment, for example they defer 20% of the cost to the end of the term," explained Cairns. "This lowers regular payments, but slightly increases the overall costs. Businesses choose this option because it gives them a cash flow benefit they're willing to pay for."

Other business finance options

Hire purchase: A fixed-term agreement where the lender buys the equipment for your business to use. Once final payment is made, you own the asset.

Finance lease: A fixed-term rental agreement where the lender owns the asset but at the end of the lease term, you can make an offer to buy it.

Operating lease: A fixed-term rental agreement where you rent the asset from your lender, who owns it. This is particularly popular for rapidly depreciating items like IT and medical equipment because there is more flexibility to update.

10 key questions to ask your finance provider

1. Can I structure the repayments to match my cashflow? For example, seasonal businesses may want to structure repayments, to pay more during peak times.
2. What are the potential tax benefits and after-tax costs?
3. How long will it take to get approval and can I apply online?
4. Can I change the loan if I want to?
5. Are there any additional costs in the agreement other than the repayment?
6. How long will it take for funds to be available?
7. What is the serviceable life and warranty period of the asset?
8. How quickly does innovation replace these models?
9. Is there flexibility to opt out of owning the asset?
10. What is your competition doing and will they become more efficient with new purchases before you do?

Find out more

Every business is different, so it's important to find the right option for your unique needs. One option is to talk to the CommBank Asset Finance Team, who can outline the options available.

Innovation

Helping businesses to innovate

If the cost of new technology and equipment is holding your business back from innovation, equipment finance might be able to help.

The cost of staying in front

New technology is transforming the way many industries work — and giving the businesses that use it, a seriously competitive edge. But while new innovative technology and equipment can deliver time and financial savings in the future, the initial cost investment can be costly.

According to East & Partners research, 53.5%[2] of businesses looking to purchase new equipment over the next three months will do so, because they have cash on hand. But even if a business does have cash available to purchase new equipment, this could impact cashflow down the track.

That's why using finance to purchase new equipment or technology can make sense. Finance can:

- Allow a business to free up cash flow for other expenses;
- Be structured to suit cash flow; and,
- Be tax effective.

According to Grant Cairns, General Manager, Client Acquisition & Specialist Solutions, Commonwealth Bank, many businesses are unaware of the wide variety of technology or equipment that asset finance can be used for. "The reality is we fund a huge range of equipment and technology — including assets that can completely transform the way a company operates."

Tailored leasing/financing can make investing in innovation more affordable. "Businesses can take out 100% of the purchase price of new equipment, which acts as security for the loan. This allows the business to preserve its working capital, and leave any equity in the business free for other purposes," Cairns said.

Innovation on the land

Cairns says that asset finance is being used to buy equipment that is transforming agriculture. One example is drones, also known as Unmanned Aerial Vehicles (UAVs), which are more cost effective than traditional approaches.

UAVs can be used to:

- Survey land and herd cattle;
- Control bugs and pests; and,
- Cover remote farms that span thousands of kilometers.

Did you know?

"We've also funded other time and labour-saving devices, including olive harvesters and equipment used to grade agricultural produce, such as carrots and cherries," said Cairns.

Smarter use of energy

Some of the more innovative equipment that businesses are purchasing to become more energy efficient include:

- Smart meters, thermostats and sensors to monitor energy usage and identify savings;
- Waste recycling machinery;
- Tri-generation energy plants, lighting and energy control systems; and,
- Electric fleets, hybrid equipment and vehicles.

Because so many businesses are trying to reduce their energy use and environmental footprint, CommBank Asset Finance now provides energy efficient loans. These finance arrangements are for equipment that meets Clean Energy Finance Corporation energy efficient criteria and are co-funded with the Clean Energy Finance Corporation.

"We've seen a lot of interest in our energy efficient loans that help businesses generate income, and make an investment in the environment over the long term," said Cairns. "I expect over time this type of arrangement will become more popular."

Find out more

Businesses may be surprised at what equipment finance can fund; essentially equipment that generates income for a business – from fishing nets to high tech medical equipment. Talking to the CommBank Asset Finance team is a good place to start. They can explain the kind of loans available to help you make the right choices to fit the needs of your business.

2 East & Partners Asset Finance research, September 2015.


Who can put equipment within easy reach?
CommBank Can.
We're in the Can Business, which means when you're ready to buy, our equipment finance process is fast and simple.
CommBank's award-winning* SmartSign® technology lets you review and sign your finance agreements anywhere, anytime. With the ease of online access, there's no need to print contracts, obtain a witness signature or even pick up a pen.
Keep your business moving with a comprehensive range of products from your Equipment Finance and Leasing Bank of the Year.
Visit commbank.com.au/assetfinance or call 1800 ASSETS